

Transparency of Funding Appropriation Report

In accordance with FY2012-13 Appropriations Act Proviso 67.6 this report provides information on 1) state unemployment taxes collected by tax class, 2) unemployment benefit claims paid, 3) number and dollar value of improper unemployment benefits paid, 4) payments made to the federal government for outstanding unemployment benefit loans, and 5) the balance in the state's Unemployment Trust Fund at fiscal year's end.

TAX COLLECTIONS BY TAX CLASS

Tax rates are set on a calendar year basis in the late fall of each year. Tax rates for CY2011 were originally set in October 2010 while tax rates for CY2012 were originally set in October 2011. In both years the General Assembly appropriated additional funds to the South Carolina Department of Employment and Workforce (SCDEW) which resulted in the issuance of revised tax rates in September 2011 and 2012.

In CY2011, a total of \$460.1 million was collected in the form of state unemployment taxes. These funds were used to pay unemployment benefits to eligible individuals who were laid off through no fault of their own, to make required loan repayments to the federal government for South Carolina's current outstanding unemployment debt, and to make interest payments on that outstanding loan balance. In addition to the base tax rate for benefit and loan payments and the interest surcharge for interest payments, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment which is used to fund reemployment services.

Table 1 shows the contributions paid for CY2011 by each tax class.

Table 1: Contributions by Tax Rate Class, 2011¹

Tax Rate Class	# Liable Businesses	Base Tax Contributions	Interest and Contingency Contributions	% of Total Contributions
1	44,574	\$75,825	\$1,506,045	0.3%
2	2,442	\$4,675,236	\$696,134	1.2%
3	2,172	\$5,838,098	\$816,428	1.4%
4	1,881	\$4,716,942	\$632,651	1.2%
5	1,626	\$6,472,514	\$820,660	1.6%
6	2,336	\$7,691,970	\$926,684	1.9%
7	1,837	\$11,122,440	\$1,282,509	2.7%
8	2,599	\$8,751,991	\$964,431	2.1%
9	2,755	\$10,202,630	\$1,081,945	2.5%
10	2,626	\$10,461,860	\$1,069,438	2.5%
11	2,720	\$13,433,754	\$1,321,856	3.2%
12	27,249	\$43,578,516	\$4,169,107	10.4%
13	3,545	\$17,356,580	\$1,422,196	4.1%
14	3,825	\$18,980,253	\$1,528,873	4.5%
15	4,443	\$26,508,321	\$2,095,698	6.2%
16	4,202	\$33,427,043	\$2,600,577	7.8%
17	4,326	\$38,958,840	\$2,992,158	9.1%
18	3,791	\$43,472,556	\$3,296,474	10.2%
19	4,059	\$54,746,569	\$4,098,413	12.8%
20	7,887	\$61,880,233	\$4,453,441	14.4%
TOTAL	130,895	\$422,352,173	\$37,775,719	

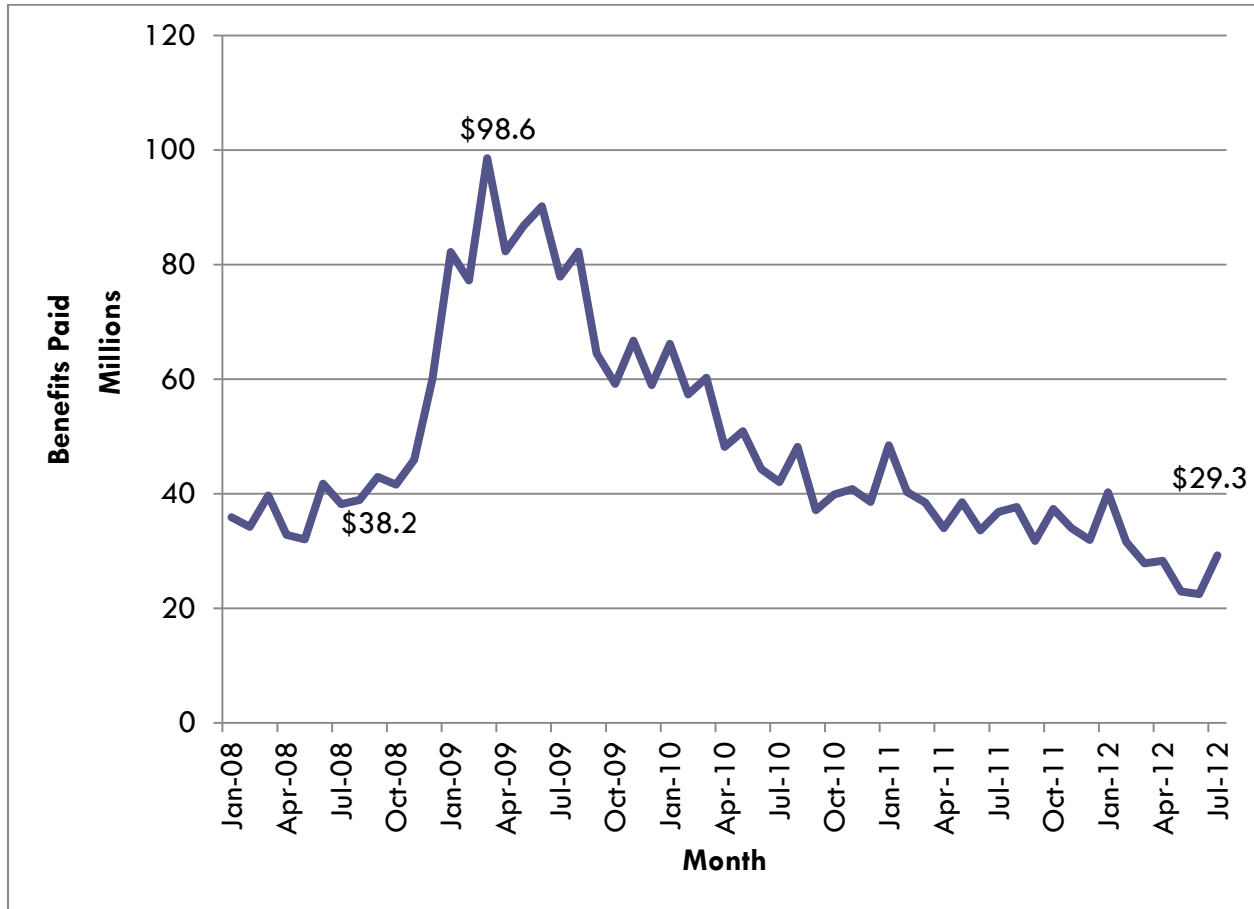
While there are a large number of liable businesses in rate class 1, these are relatively small in size. Approximately 5 percent of the state's total taxable wages (excluding new businesses) are assigned to each category. Businesses with less than 12 months of liability are assigned a new business tax rate of class 12. That accounts for the large volume of businesses in that category in Table 1.

UNEMPLOYMENT BENEFITS PAID

State unemployment taxes fund up to the first 20 weeks of unemployment benefits to individuals who are out of work. Prior to June 2011, the state taxes funded up to the first 26 weeks. Due to the reduction in the number of available weeks, continued job growth, economic improvement in the state, and stricter disqualification penalties being implemented, benefit payments have come down substantially from their height in 2009.

Figure 1 shows the state-funded benefits paid by month from January 2008 through July 2012. Monthly benefit payments reached a peak in March 2009 at over \$98 million. In the most recent month available from the United States Department of Labor (DOL), benefit payments had dropped to slightly over \$29 million, a 70 percent drop. Benefit payments are expected to continue to decline as the unemployment rate falls and job growth increases.

¹ Internal reports of CY2011 contributions, contingency, and interest surcharge payments by tax class as of Sept. 2012.

Figure 1: Monthly State-Funded Unemployment Benefit Payments, Jan 2008 – Jul 2012²

UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

The Benefit Accuracy Measurement (BAM) program is designed to identify the unemployment insurance program's processing trends that cause erroneous UI benefit payments or denials. BAM investigations are a review of the records of a sample group of claims, selected each week at random, to test the accuracy of UI decisions to issue or deny the payment of UI benefits for a key week. In conducting a Paid Claims Accuracy investigation, a BAM auditor reviews paid claims and provides detailed information regarding the rates, types, and causes of improper payments.

Table 2 provides information on improper payments for South Carolina between the third quarter 2011 and second quarter 2012 based on a sample size of 529 cases. The majority of errors identified in the BAM sample that caused the detected overpayment were the result of Benefit Year Earnings where UI claimants continued to draw benefits after returning to work and not reporting their earnings to DEW. This accounted for approximately \$26 million of the estimated overpayments or about 48 percent. DEW has plans to provide additional claimant educational awareness training on the requirement to report all earnings while filing for benefits.

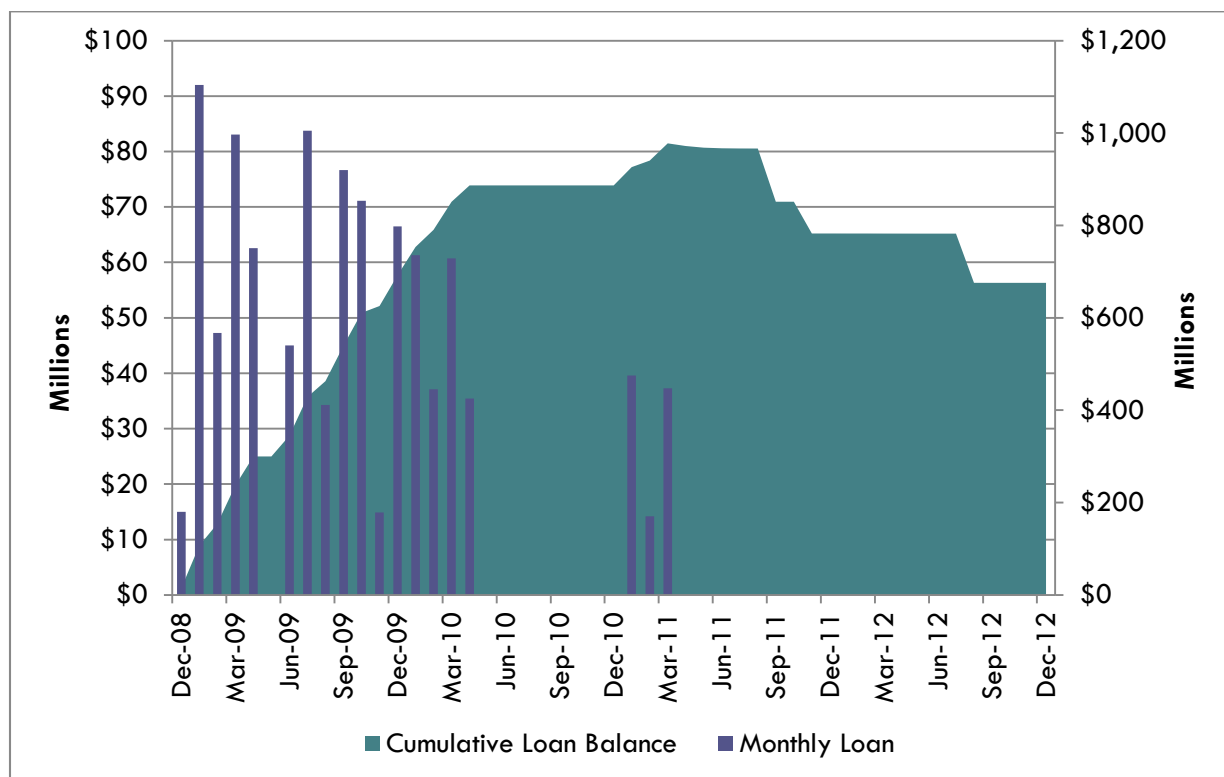
² United States Department of Labor, <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>

Table 2: Overpayment Comparison, 2011Q3-2012Q2³

	Sample Size	Annual Report Rate	Est. Dollars Overpaid
South Carolina	529	13.8%	\$55 million
Benefit Year Earnings			\$26m (48.0%)
Separation Issues			\$18m (32.5%)
Work Search			\$1m (2.0%)
Other Issues			\$10m (17.5%)

UI LOAN PAYMENTS

Between December 2008 and April 2011, the State of South Carolina borrowed nearly \$1 billion from the federal government to continue funding unemployment benefits. The state unemployment tax system underwent a dramatic overhaul in 2011 which allowed the state to cease all borrowing in April 2011. In October 2011, the state made its first voluntary repayment to the federal government. Figure 2 shows the monthly loans taken by DEW as well as the cumulative loan from 2008 to present.

Figure 2: Monthly and Cumulative Loan Balance, Dec 2008 – Dec 2012⁴

To date, approximately \$326 million has been repaid to the federal government through a combination of a one-time increase in federal taxes for tax year 2010 and three voluntary payments made in 2011 and 2012. Table 3 provides detailed repayment information made by the state.

³ 2011Q3-2012Q2 BAM report prepared by DEW Batch Range 201126 - 201225

⁴ Monthly unemployment trust fund reports: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm

Table 3: South Carolina UI Loan Payments, April 2011 – August 2012⁵

Date	Payment (in millions)	Reason
Apr 2011	\$29.8	FUTA Credit Reduction
May 2011	\$3.6	FUTA Credit Reduction
Jun 2011	\$1.3	FUTA Credit Reduction
Jul 2011	\$0.5	FUTA Credit Reduction
Aug 2011	\$0.1	FUTA Credit Reduction
Sep 2011	\$115.2	Voluntary Payment
Nov 2011	\$68.8	Voluntary Payment
Mar 2012	\$0.1	FUTA Credit Reduction
Apr 2012	\$0.1	FUTA Credit Reduction
Jun 2012	\$0.1	FUTA Credit Reduction
Aug 2012	\$106.5	Voluntary Payment
TOTAL	\$326.1	

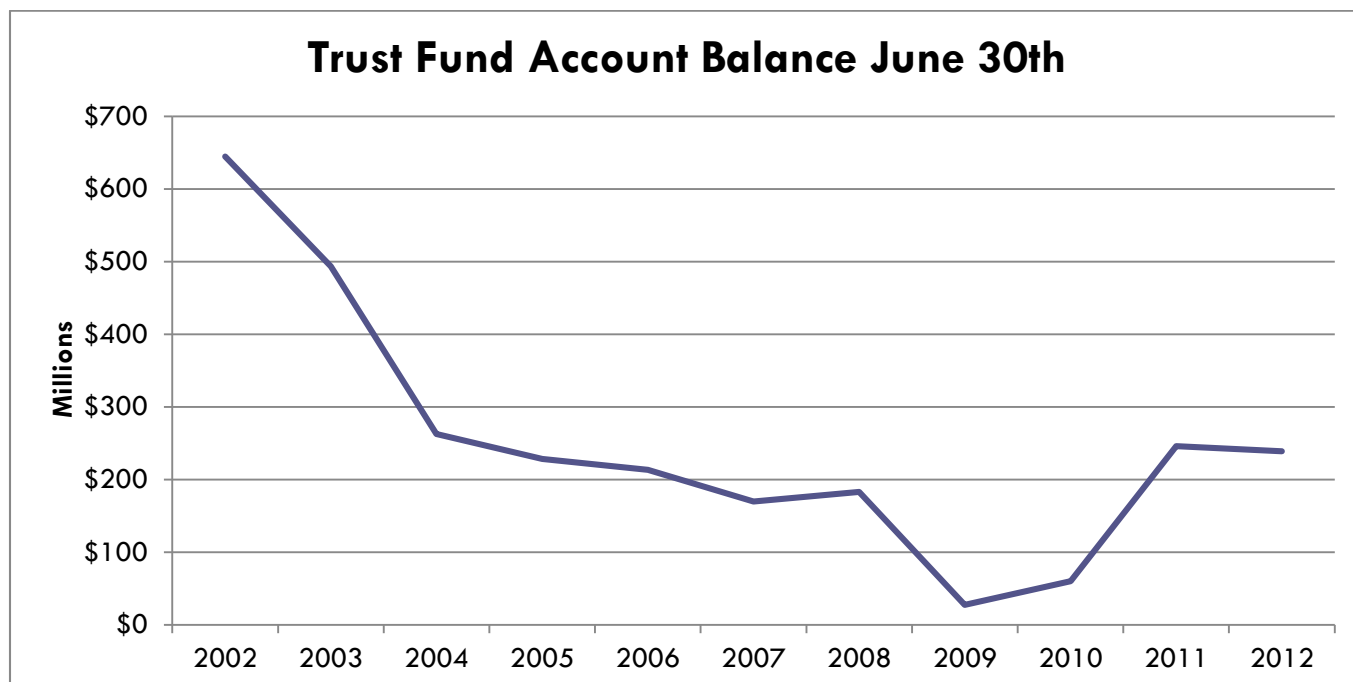
TRUST FUND BALANCE

As of June 30, 2012 there was an unadjusted balance of \$238,979,423.14⁶ in the state's unemployment trust fund held at the US Treasury in Washington DC. This compares favorably with the trust fund balance at fiscal year-end 2007, 2008, 2009, and 2010. As shown in Figure 3, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011. Not shown is that this balance includes loans between 2009 and 2012. The trust fund continues to be in a net negative position given the outstanding loans; however, significant improvement has been experienced since the tax reforms of 2011.

⁵ *Ibid*

⁶ Account Statement June 2012: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm

Figure 3: UI Trust Fund Balance as of June 30th, 2002-2012



CONCLUSION

The tax changes that took effect January 1, 2011 have put the South Carolina unemployment compensation trust fund on a healthier path. Outstanding federal loans are being repaid while the trust fund balance continues to move in a positive direction. The state is on track for being able to pay off all outstanding loans by the end of 2015.

As the overall health of the South Carolina economy improves, benefit payments to unemployed individuals will continue to fall which will help to decrease the tax burden on the state's businesses and repay the outstanding loans more quickly. Additionally, the steps taken by DEW to address the integrity of benefit payments will help to continue to bring the overpayment rate down.

A more detailed report of the UI Trust Fund will be made available by October 1st in accordance with South Carolina Code of Law Section 41-33-45.